

**REPORT OF THE AUDIT OF THE  
MUHLENBERG COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MUHLENBERG COUNTY FISCAL COURT**

**June 30, 2014**

The Auditor of Public Accounts has completed the audit of the Muhlenberg County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Muhlenberg County, Kentucky. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Muhlenberg County's major federal programs: CFDA #14.228 and CFDA #16.738. Also, in accordance with OMB Circular A-133, we have issued a modified opinion on the compliance requirements that are applicable to Muhlenberg County's major federal program: CFDA #11.300.

**Financial Condition:**

The Muhlenberg County Fiscal Court had total receipts of \$18,376,326 and disbursements of \$20,050,415 in fiscal year 2014. This resulted in a total ending fund balance of \$4,404,721, which is a decrease of \$889,887 from the prior year.

**Report Comments:**

- |          |  |
|----------|--|
| 2014-001 | The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts   |
| 2014-002 | Telephone Commissions Contracts Should Be Approved By Fiscal Court And All Jail Disbursements Should Be Budgeted   |
| 2014-003 | Internal Controls Over Disbursements/Credit Cards Should Be Strengthened   |
| 2014-004 | The Fiscal Court Should Advertise For And Award Bids In Accordance With KRS 424.260  |
| 2014-005 | The Fiscal Court Failed To Implement Adequate Internal Controls Over Activities Allowed Or Unallowed, Allowable Costs/Cost Principles, And Cash Management And Received Duplicate Reimbursements For The Same Costs                    |
| 2014-006 | The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting And Submitted A Materially Misstated Financial Report To The United States Department Of Commerce-Economic Development Administration |
| 2014-007 | The Fiscal Court Should Document Approval/Presentation Of All Expenditures Prior To Payment  |
| 2014-008 | The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting For The Edward Byrne Grant And Had Questioned Costs Of \$12,832   |

**Deposits:**

The fiscal court's deposits as of June 30, 2014, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$213,894

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Lori H. Flanery, Secretary  
Finance and Administration Cabinet  
Honorable Rick Newman, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Muhlenberg County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky  
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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in more fully in Note 1, the financial statement is prepared by Muhlenberg County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Muhlenberg County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Muhlenberg County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

#### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Muhlenberg County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statement. The budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statement.



To the People of Kentucky  
 Honorable Steven L. Beshear, Governor  
 Lori H. Flanery, Secretary  
 Finance and Administration Cabinet  
 Honorable Rick Newman, Muhlenberg County Judge/Executive  
 Members of the Muhlenberg County Fiscal Court

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 30, 2015 on our consideration of Muhlenberg County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Muhlenberg County's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2014-001 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts
- 2014-002 Telephone Commissions Contracts Should Be Approved By Fiscal Court And All Jail Disbursements Should Be Budgeted
- 2014-003 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened
- 2014-004 The Fiscal Court Should Advertise For And Award Bids In Accordance With KRS 424.260
- 2014-005 The Fiscal Court Failed To Implement Adequate Internal Controls Over Activities Allowed Or Unallowed, Allowable Costs/Cost Principles, And Cash Management And Received Duplicate Reimbursements For The Same Costs
- 2014-006 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting And Submitted A Materially Misstated Financial Report To The United States Department Of Commerce-Economic Development Administration
- 2014-007 The Fiscal Court Should Document Approval/Presentation Of All Expenditures Prior To Payment
- 2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting For The Edward Byrne Grant And Had Questioned Costs Of \$12,832

Respectfully submitted,



Adam H. Edelen  
 Auditor of Public Accounts

April 30, 2015

MUHLENBERG COUNTY OFFICIALS

For The Year Ended June 30, 2014

**Fiscal Court Members:**

Rick Newman	County Judge/Executive
Daniel Bowles	Magistrate
Cozy Chappell	Magistrate
Darrin Benton	Magistrate
Joe Glen Mitchell	Magistrate
Tommy Watkins	Magistrate

**Other Elected Officials:**

Darris Russell	County Attorney
Mark Curry	Jailer
Gaylan Spurlin	County Clerk
Cameron Laycock	Circuit Court Clerk
Curtis McGehee	Sheriff
Bill Alward	Property Valuation Administrator
Tony Armour	Coroner

**Appointed Personnel:**

Charles Lewis	County Treasurer
Laura Montgomery	Finance Officer

**MUHLENBERG COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

**MUHLENBERG COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,849,989	\$	\$
In Lieu Tax Payments	3,043,880		
Excess Fees	1,463,335		
Licenses and Permits	372		
Intergovernmental	1,721,932	2,494,822	2,504,480
Charges for Services	350,640		17,630
Miscellaneous	819,546	524,512	151,577
Interest	3,323		
Total Receipts	<u>9,253,017</u>	<u>3,019,334</u>	<u>2,673,687</u>
<b>DISBURSEMENTS</b>			
General Government	3,772,081		
Protection to Persons and Property	917,259		2,173,831
General Health and Sanitation	773,352		
Social Services	332,857		
Recreation and Culture	343,371		
Roads		3,466,419	
Debt Service	875,046	688,563	
Capital Projects	1,272,582		
Administration	1,662,145	527,000	710,895
Total Disbursements	<u>9,948,693</u>	<u>4,681,982</u>	<u>2,884,726</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(695,676)</u>	<u>(1,662,648)</u>	<u>(211,039)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Borrowed Money		784,202	
Transfers From Other Funds	1,591,829	750,000	250,000
Transfers To Other Funds	(1,875,046)		
Total Other Adjustments to Cash (Uses)	<u>(283,217)</u>	<u>1,534,202</u>	<u>250,000</u>
Net Change in Fund Balance	(978,893)	(128,446)	38,961
Fund Balance - Beginning	3,182,399	240,865	55,930
Fund Balance - Ending	<u>\$ 2,203,506</u>	<u>\$ 112,419</u>	<u>\$ 94,891</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 1,709,690	\$ 117,645	\$ 96,395
Plus: Deposits In Transit			
Less: Outstanding Checks	(41,184)	(5,226)	(1,504)
Certificate of Deposits	535,000		
Fund Balance - Ending	<u>\$ 2,203,506</u>	<u>\$ 112,419</u>	<u>\$ 94,891</u>

The accompanying notes are an integral part of the financial statement.

**MUHLENBERG COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>Budgeted Funds</b>			
<b>Local Government Economic Assistance Fund</b>	<b>Pennyrile Narcotics Fund</b>	<b>Rails to Trails Fund</b>	<b>Local Government Economic Development Fund</b>
\$	\$	\$	\$
1,201,653	731,680		876,325
138	27		6
<u>1,201,791</u>	<u>731,707</u>		<u>876,331</u>
40,000			65,000
118,650	569,469		
510,900			
543,915			92,140
<u>1,213,465</u>	<u>569,469</u>		<u>157,140</u>
(11,674)	162,238		719,191
			875,046
			(1,591,829)
			(716,783)
(11,674)	162,238		2,408
1,354,135	240,178	102,000	44,844
<u>\$ 1,342,461</u>	<u>\$ 402,416</u>	<u>\$ 102,000</u>	<u>\$ 47,252</u>
\$ 1,342,461	\$ 402,416	\$ 102,000	\$ 47,252
<u>\$ 1,342,461</u>	<u>\$ 402,416</u>	<u>\$ 102,000</u>	<u>\$ 47,252</u>

The accompanying notes are an integral part of the financial statement.

**MUHLENBERG COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>Unbudgeted Funds</b>		
	<b>Justice Center Corporation Refunding Bond Fund</b>	<b>Jail Commissary Fund</b>	<b>Total Funds</b>
<b>RECEIPTS</b>			
Taxes	\$	\$	\$ 1,849,989
In Lieu Tax Payments			3,043,880
Excess Fees			1,463,335
Licenses and Permits			372
Intergovernmental	140,750	479,699	10,151,341
Charges for Services			368,270
Miscellaneous			1,495,635
Interest		10	3,504
Total Receipts	<u>140,750</u>	<u>479,709</u>	<u>18,376,326</u>
<b>DISBURSEMENTS</b>			
General Government			3,877,081
Protection to Persons and Property			3,779,209
General Health and Sanitation			773,352
Social Services			332,857
Recreation and Culture			343,371
Roads			3,977,319
Debt Service	140,750	454,190	2,702,464
Capital Projects			1,364,722
Administration			2,900,040
Total Disbursements	<u>140,750</u>	<u>454,190</u>	<u>20,050,415</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>25,519</u>	<u>(1,674,089)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Borrowed Money			784,202
Transfers From Other Funds			3,466,875
Transfers To Other Funds			(3,466,875)
Total Other Adjustments to Cash (Uses)			<u>784,202</u>
Net Change in Fund Balance		25,519	(889,887)
Fund Balance - Beginning	538	73,719	5,294,608
Fund Balance - Ending	<u>\$ 538</u>	<u>\$ 99,238</u>	<u>\$ 4,404,721</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 538	\$ 104,101	\$ 3,922,498
Deposits In Transit		1,287	1,287
Less Outstanding Checks		(6,150)	(54,064)
Certificate of Deposits			535,000
Ending Fund Balance	<u>\$ 538</u>	<u>\$ 99,238</u>	<u>\$ 4,404,721</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2014**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Muhlenberg County includes all budgeted and unbudgeted funds under the control of the Muhlenberg County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.



**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Pennyrile Narcotics Fund - The primary purpose of this fund is to account for the activity of a tri county drug enforcement agency. The primary sources of receipts for this fund are grants from the federal government and contributions from other local governments.

Rails to Trails Fund - The primary purpose of this fund is to account for grants and related disbursements for the development of a walking trail. The primary sources of receipts for this fund are grants from the state government.

Local Government Economic Development Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are from the state government.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Justice Center Corporation Refunding Bond Fund - The primary purpose of this fund is to account for the proceeds and debt service of refunding revenue bonds that were issued to fund construction of the Justice Center.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information (Continued)**

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

The State Local Finance Officer does not require the Justice Center Corporation Fund or the General Obligation Bond to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

**E. Muhlenberg County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Muhlenberg County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Muhlenberg County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 2. Deposits**

The fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$213,894

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	LGEDF Fund	Total Transfers In
General Fund	\$	\$ 1,591,829	\$ 1,591,829
Road Fund	750,000		750,000
Jail Fund	250,000		250,000
LGEDF Fund	875,046		875,046
Total Transfers Out	<u>\$ 1,875,046</u>	<u>\$ 1,591,829</u>	<u>\$ 3,466,875</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

**Note 4. Asset Held For Resale**

**Assets Held for Resale**

	Beginning Balance	Additions	Reductions	Ending Balance
Vehicles and Equipment	\$ 547,704	\$ 558,732	\$ 547,704	\$ 558,732
Total	<u>\$ 547,704</u>	<u>\$ 558,732</u>	<u>\$ 547,704</u>	<u>\$ 558,732</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 5. Long-term Debt**

**A. General Obligation Refunding Bonds, Series 2007 (Detention Center)**

On March 1, 2007, the Muhlenberg County Fiscal Court issued \$6,255,000 General Obligation Refunding Bonds, Series 2007, for the purpose of (i) refunding, in advance of maturity, the outstanding County of Muhlenberg, Kentucky General Obligation Improvement Bonds (Detention Facilities Project), Series 2000 and (ii) paying the costs of issuing the bonds. Interest on the bonds will be payable semi-annually on February 1 and August 1 of each year commencing August 1, 2007. The interest rate on the bonds ranges from 3.5% to 3.75%. The bonds will mature on August 1 of each year beginning August 1, 2007. The outstanding balance as of June 30, 2014 was \$ 3,705,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 405,000	\$ 129,324
2016	430,000	114,190
2017	435,000	98,512
2018	450,000	82,415
2019	470,000	65,508
2020-2022	<u>1,515,000</u>	<u>86,719</u>
Totals	<u>\$ 3,705,000</u>	<u>\$ 576,668</u>

**B. General Obligation Refunding and Improvement Bonds, Series 2011 (Courthouse)**

On March 3, 2011, the Muhlenberg County Fiscal Court issued \$11,765,000 General Obligation Refunding and Improvement Bonds, Series 2011, for the purpose of courthouse renovations. Interest on the bonds will be payable semi-annually on April 1 and October 1 of each year commencing October 1, 2011. The interest rate on the bonds range from 2.25% and 4.75%. The outstanding balance as of June 30, 2014 was \$10,440,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 465,000	\$ 409,809
2016	475,000	398,184
2017	490,000	385,715
2018	500,000	372,240
2019	515,000	357,240
2020-2024	2,865,000	1,500,583
2025-2029	3,500,000	871,700
2030-2031	<u>1,630,000</u>	<u>117,087</u>
Totals	<u>\$ 10,440,000</u>	<u>\$ 4,412,558</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. First Mortgage Refunding Revenue Bonds, Series 2012 (Justice Center)**

On April 5, 2012, the Muhlenberg County Justice Center Corporation ("The Corporation") issued \$4,570,000 First Mortgage Refunding Revenue Bonds (Judicial Center Project), Series 2012, for the purpose of (i) advance partial refunding the \$6,955,000 Muhlenberg County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds, Series 2002, the proceeds of which were used for the construction of a Judicial Center facility ("Prior Bonds"); (ii) paying accrued interest, if any; and (iii) paying the cost of issuance incurred with respect to the issuance of the Bonds. Interest on the Bonds is payable each March 1 and September 1, beginning September 1, 2012. The Bonds will mature on September 1 of each year beginning September 1, 2013. The interest rate on the bonds ranges from 1.0% to 2.75%.

The Corporation, the County and the Administrative Office of the Courts ("AOC") have entered into a Lease Agreement dated as of April 5, 2012 (the "Lease"), wherein the AOC will lease from the Corporation the Project and the Project Site (as described herein), at an agreed rental, which rental amount will be assigned by the Corporation to the Trustee and is anticipated to be adequate to pay approximately 100% of the principal and interest on the Bonds. The Lease does not require the County to make any rental payments toward the Project; however, the County is obligated to provide for the operation, maintenance, insurance and repair of the Project. On May 1 of each even numbered year, this lease may be renewed by AOC for another biennial period of two years.

Bonds outstanding as of June 30, 2014 totaled \$4,530,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 415,000	\$ 98,475
2016	420,000	92,200
2017	430,000	83,700
2018	440,000	75,000
2019	445,000	66,150
2020-2024	<u>2,380,000</u>	<u>168,525</u>
Totals	<u>\$ 4,530,000</u>	<u>\$ 584,050</u>

**D. Gradall Loan**

On April 13, 2010, the Muhlenberg County Fiscal Court entered into a 5-year loan agreement with First National Bank for the purchase of a Gradall. The principal amount borrowed was \$309,800 with an interest rate of 3.85%. The agreement requires monthly principal and interest payments. The outstanding balance as of June 30, 2014, was \$55,709. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 55,709	\$ 1,064
Totals	<u>\$ 55,709</u>	<u>\$ 1,064</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**E. Caterpillar Tractor Loan**

On August 1, 2011, the Muhlenberg County Fiscal Court entered into a 4-year loan agreement with First National Bank for the purchase of a Caterpillar Tractor. The principal amount borrowed was \$207,860 with an interest rate of 3.40%. The agreement requires monthly principal and interest payments. The outstanding balance as of June 30, 2014, was \$12,099. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 12,099	\$ 66
Totals	<u>\$ 12,099</u>	<u>\$ 66</u>

**F. Lease – Four Trucks**

On December 5, 2012, the Muhlenberg County Fiscal Court entered into a 19-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing four trucks. The principal amount borrowed with \$500,000 with an interest rate of 4.55%. The outstanding balance as of June 30, 2014, was \$0.

**G. Lease – Mack Truck**

On December 19, 2013, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing a Mack truck. The principal amount borrowed was \$128,028 with an interest rate of 4.55%. The outstanding balance as of June 30, 2014, was \$128,028. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 128,028	\$ 5,324
Totals	<u>\$ 128,028</u>	<u>\$ 5,324</u>

**H. Lease – Mack Trucks**

On October 8, 2013, the Muhlenberg County Fiscal Court entered into an 18-month lease purchase agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of purchasing three Mack trucks. The principal amount borrowed was \$430,704 with an interest rate of 4.55%. The outstanding balance as of June 30, 2014, was \$430,704. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 430,704	\$ 14,678
Totals	<u>\$ 430,704</u>	<u>\$ 14,678</u>

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**I. Caterpillar Grader Loan**

On December 16, 2013, the Muhlenberg County Fiscal Court entered into a 4-year loan agreement with the First Kentucky for the purchase of a Caterpillar 120M2 Grader. The principal amount borrowed was \$225,470 with an interest rate of 2.44%. The agreement requires monthly principal and interest payments. The outstanding balance as of June 30, 2014, was \$204,118. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 43,427	\$ 4,561
2016	44,505	3,484
2017	45,627	2,361
2018	50,719	1,268
2019	19,840	125
Totals	<u>\$ 204,118</u>	<u>\$ 11,799</u>

**J. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 15,000,000	\$	\$ 855,000	\$14,145,000	\$ 870,000
Revenue Bonds	4,570,000		40,000	4,530,000	415,000
Financing Obligations	703,551	784,202	657,095	830,658	669,967
Total Long-term Debt	<u>\$ 20,273,551</u>	<u>\$ 784,202</u>	<u>\$ 1,552,095</u>	<u>\$ 19,505,658</u>	<u>\$ 1,954,967</u>

**Note 6. Commitments and Contingencies**

The County is involved in a lawsuit that arose from the normal course of doing business. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$829,311, FY 2013 was \$905,186, and FY 2014 was \$933,803.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.



**MUHLENBERG COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Deferred Compensation**

On February 24, 2000, the Muhlenberg County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 9. Insurance**

For the fiscal year ended June 30, 2014, Muhlenberg County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Related Party Transactions**

The Muhlenberg County Treasurer is a compensated member of the Board of Directors at First Security Bank where the Fiscal Court maintains a certificate of deposit.

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**MUHLENBERG COUNTY**  
**BUDGRTARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**



**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 1,791,500	\$ 1,791,500	\$ 1,849,989	\$ 58,489
In Lieu Tax Payments	2,600,000	2,600,000	3,043,880	443,880
Excess Fees	1,410,000	1,410,000	1,463,335	53,335
Licenses and Permits	37,500	37,500	372	(37,128)
Intergovernmental	2,063,050	2,063,050	1,721,932	(341,118)
Charges for Services	316,600	316,600	350,640	34,040
Miscellaneous	675,600	675,600	819,546	143,946
Interest	3,500	3,500	3,323	(177)
Total Receipts	8,897,750	8,897,750	9,253,017	355,267
<b>DISBURSEMENTS</b>				
General Government	3,710,200	4,132,450	3,772,081	360,369
Protection to Persons and Property	1,238,250	1,062,450	917,259	145,191
General Health and Sanitation	1,041,000	1,042,000	773,352	268,648
Social Services	202,500	348,500	332,857	15,643
Recreation and Culture	673,800	556,300	343,371	212,929
Debt Service	1,010,000	20,050	875,046	(854,996)
Capital Projects	1,513,000	2,018,000	1,272,582	745,418
Administration	2,033,000	1,774,000	1,662,145	111,855
Total Disbursements	11,421,750	10,953,750	9,948,693	1,005,057
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(2,524,000)	(2,056,000)	(695,676)	1,360,324
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			1,591,829	1,591,829
Transfers To Other Funds	(1,306,800)	(1,306,800)	(1,875,046)	(568,246)
Borrowed Money	1,000,000	1,000,000		(1,000,000)
Total Other Adjustments to Cash (Uses)	(306,800)	(306,800)	(283,217)	23,583
Net Change in Fund Balance	(2,830,800)	(2,362,800)	(978,893)	1,383,907
Fund Balance Beginning	2,830,800	2,830,800	3,182,399	351,599
Fund Balance - Ending	\$ 0	\$ 468,000	\$ 2,203,506	\$ 1,735,506

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>ROAD FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,388,250	\$ 2,388,250	\$ 2,494,822	\$ 106,572
Miscellaneous	455,000	455,000	524,512	69,512
Total Receipts	2,843,250	2,843,250	3,019,334	176,084
<b>DISBURSEMENTS</b>				
Roads	2,287,400	2,729,600	3,466,419	(736,819)
Debt Service	663,900	689,700	688,563	1,137
Administration	527,000	527,000	527,000	
Total Disbursements	3,478,300	3,946,300	4,681,982	(735,682)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(635,050)	(1,103,050)	(1,662,648)	(559,598)
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money			784,202	784,202
Transfers From Other Funds	585,050	585,050	750,000	164,950
Total Other Adjustments to Cash (Uses)	585,050	585,050	1,534,202	949,152
Net Change in Fund Balance	(50,000)	(518,000)	(128,446)	389,554
Fund Balance Beginning	50,000	50,000	240,865	190,865
Fund Balance - Ending	\$ 0	\$ (468,000)	\$ 112,419	\$ 580,419

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,115,000	\$ 2,115,000	\$ 2,504,480	\$ 389,480
Charges for Services	14,000	14,000	17,630	3,630
Miscellaneous	157,500	157,500	151,577	(5,923)
Total Receipts	2,286,500	2,286,500	2,673,687	387,187
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	2,338,250	2,338,250	2,173,831	164,419
Administration	720,000	720,000	710,895	9,105
Total Disbursements	3,058,250	3,058,250	2,884,726	173,524
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(771,750)	(771,750)	(211,039)	560,711
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	721,750	721,750	250,000	(471,750)
Total Other Adjustments to Cash (Uses)	721,750	721,750	250,000	(471,750)
Net Change in Fund Balance	(50,000)	(50,000)	38,961	88,961
Fund Balance Beginning	50,000	50,000	55,930	5,930
Fund Balance - Ending	\$ 0	\$ 0	\$ 94,891	\$ 94,891

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,085,000	\$ 1,085,000	\$ 1,201,653	\$ 116,653
Interest	100	100	138	38
Total Receipts	<u>1,085,100</u>	<u>1,085,100</u>	<u>1,201,791</u>	<u>116,691</u>
<b>DISBURSEMENTS</b>				
General Government	40,000	40,000	40,000	
Protection to Persons and Property	118,650	118,650	118,650	
Roads	550,000	550,000	510,900	39,100
Debt Service	543,915	543,915	543,915	
Total Disbursements	<u>1,252,565</u>	<u>1,252,565</u>	<u>1,213,465</u>	<u>39,100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(167,465)</u>	<u>(167,465)</u>	<u>(11,674)</u>	<u>155,791</u>
Net Change in Fund Balance	(167,465)	(167,465)	(11,674)	155,791
Fund Balance Beginning	<u>167,465</u>	<u>167,465</u>	<u>1,354,135</u>	<u>1,186,670</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,342,461</u>	<u>\$ 1,342,461</u>



**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>PENNYRILE NARCOTICS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 830,000	\$ 830,000	\$ 731,680	\$ (98,320)
Interest	100	100	27	(73)
Total Receipts	830,100	830,100	731,707	(98,393)
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	840,000	840,000	569,469	270,531
Total Disbursements	840,000	840,000	569,469	270,531
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(9,900)	(9,900)	162,238	172,138
Net Change in Fund Balance	(9,900)	(9,900)	162,238	172,138
Fund Balance Beginning	9,900	9,900	240,178	230,278
Fund Balance - Ending	\$ 0	\$ 0	\$ 402,416	\$ 402,416

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>RAILS TO TRAILS FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 100,000	\$ 100,000	\$	\$ (100,000)
Total Receipts	100,000	100,000		(100,000)
<b>DISBURSEMENTS</b>				
Capital Projects	202,000	202,000		202,000
Total Disbursements	202,000	202,000		202,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(102,000)	(102,000)		102,000
Net Change in Fund Balance	(102,000)	(102,000)		102,000
Fund Balance Beginning	102,000	102,000	102,000	
Fund Balance - Ending	\$ 0	\$ 0	\$ 102,000	\$ 102,000

**MUHLENBERG COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC DEVELOPMENT FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,374,455	\$ 2,374,455	\$ 876,325	\$ (1,498,130)
Interest			6	6
Total Receipts	<u>2,374,455</u>	<u>2,374,455</u>	<u>876,331</u>	<u>(1,498,124)</u>
<b>DISBURSEMENTS</b>				
General Government	125,000	125,000	65,000	60,000
Recreation and Culture	17,100	17,100		17,100
Debt Service	1,055,000	1,055,000		1,055,000
Capital Projects	1,177,355	1,177,355	92,140	1,085,215
Total Disbursements	<u>2,374,455</u>	<u>2,374,455</u>	<u>157,140</u>	<u>2,217,315</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			<u>719,191</u>	<u>719,191</u>
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			875,046	875,046
Transfers To Other Funds			(1,591,829)	(1,591,829)
Total Other Adjustments to Cash (Uses)			<u>(716,783)</u>	<u>(716,783)</u>
Net Change in Fund Balance			2,408	2,408
Fund Balance Beginning			<u>44,844</u>	<u>44,844</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 47,252</u>	<u>\$ 47,252</u>

**MUHLENBERG COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2014**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Excess of Disbursements Over Appropriations**

General Fund - Debt Service disbursements exceeded budgeted appropriations by \$854,996.

Road Fund - Road disbursements exceeded budgeted appropriations by \$736,819.

**MUHLENBERG COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**



**MUHLENBERG COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,047,585	\$	\$	\$ 2,047,585
Land Improvements	148,693	27,020		175,713
Construction In Progress		1,033,286		1,033,286
Buildings	31,683,193			31,683,193
Vehicles and Equipment	5,805,138	769,247	40,429	6,533,956
Infrastructure	284,617	94,515		379,132
	<u>\$ 39,969,226</u>	<u>\$ 1,924,068</u>	<u>\$ 40,429</u>	<u>\$41,852,865</u>
Total Capital Assets				

**MUHLENBERG COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2014**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 10,000	10-50



**MUHLENBERG COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**MUHLENBERG COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2014**

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<b><u>U. S. Department of Commerce - Economic Development Administration</u></b>			
<i>Direct Program</i>			
11.300	Investments for Public Works and Economic Development Facilities	04-69-06556 **	\$ 364,130
<b>Total U.S. Department of Commerce</b>			<u>364,130</u>
<b><u>U.S. Department of Homeland Security</u></b>			
<i>Passed-Through State Department of Military Affairs:</i>			
97.042	Emergency Management Performance Grants		<u>14,332</u>
<b>Total U.S. Department of Homeland Security</b>			<u>14,332</u>
<b><u>Department of Housing and Urban Development</u></b>			
<i>Passed-Through State Department for Local Government:</i>			
14.228	Community Development Block Grants/State's Program	10-004 **	<u>461,647</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>461,647</u>
<b><u>U.S. Department of Justice</u></b>			
<i>Passed-Through State Department of Justice:</i>			
16.738	Edward Byrne Memorial Justice Assistance Grant Program	2013-JAG-Pennrile-00956 **	<u>298,544</u>
<b>Total U.S. Department of Justice</b>			<u>298,544</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,138,653</u>

\*\*Tested as Major Program or Cluster

**MUHLENBERG COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2014**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Muhlenberg County, Kentucky and is presented on a regulatory basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Rick Newman, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Muhlenberg County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated April 30, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Muhlenberg County Fiscal Court's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Muhlenberg County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Muhlenberg County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-003, 2014-005, 2014-006, 2014-007, and 2014-008 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Muhlenberg County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-004, and 2014-007.

### **County Judge's Responses to Findings**

The Muhlenberg County Judge's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

April 30, 2015



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Rick Newman, Muhlenberg County Judge/Executive  
Members of the Muhlenberg County Fiscal Court

**Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133**

**Independent Auditor's Report**

**Report on Compliance for Each Major Federal Program**

We have audited Muhlenberg County, Kentucky's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Muhlenberg County's major federal programs for the year ended June 30, 2014. Muhlenberg County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Muhlenberg County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Muhlenberg County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Muhlenberg County's compliance.

**Basis for Modified Opinion on Investments for Public Works and Economic Development Facilities**

As described in the accompanying schedule of findings and questioned costs, Muhlenberg County did not comply with requirements regarding CFDA 11.300 Investments for Public Works and Economic Development Facilities as described in finding numbers 2014-005 for Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management and 2014-006 for Reporting. Compliance with such requirements is necessary, in our opinion, for Muhlenberg County to comply with the requirements applicable to that program.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Modified Opinion on Investments for Public Works and Economic Development Facilities**

In our opinion, except for the noncompliances described in the Basis for Modified Opinion paragraph, Muhlenberg County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 11.300 Investments for Public Works and Economic Development Facilities for the year ended June 30, 2014.

**Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, Muhlenberg County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-003 and 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

Muhlenberg County's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Muhlenberg County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of Muhlenberg County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Muhlenberg County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Muhlenberg County.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Report on Internal Control over Compliance (Continued)**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-005, 2014-006, 2014-007, and 2014-008 to be material weaknesses.

Muhlenberg County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Muhlenberg County's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

April 30, 2015

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**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2014**





**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2014**

**Section I: Summary of Auditor's Results**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**Federal Awards**

Type of auditor's report issued on compliance for major programs: Unmodified-14.228 Community Development Block Grant- State's Program and 16.738 Edward Byrne Memorial Justice Assistance Grant Program. Modified-11.300 Investments for Public Works and Economic Development Facilities

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <a href="#">U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</a> ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

14.228 Community Development Block Grant- State's Program
11.300 Investments for Public Works and Economic Development Facilities
16.738 Edward Byrne Memorial Justice Assistance Grant Program

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

*Financial Statement Findings*

2014-001 The Fiscal Court Does Not Have Adequate Controls Over Decentralized Receipts

---

The Muhlenberg County Fiscal Court does not issue receipts for all monies collected at the Agriculture Expo Center during events. The Agriculture Expo Center collects monies for parking, admissions, concessions, and other miscellaneous items. Additionally, the Muhlenberg County Fiscal Court does not issue receipts for monies collected at garbage drop-off locations or for the sale of garbage bags. The Fiscal Court operates drop-off stations that allow citizens of Muhlenberg County to bring their trash to these localized hubs for a nominal fee.

KRS 64.840(1) states “all county officials shall, upon the receipt of any fine, forfeiture, tax, or fee, prepare a receipt that meets the specifications of the state local finance officer...”

Implemented internal controls over decentralized receipts at the Expo center and for garbage collection are not adequate and do not meet the criteria required by KRS 64.840.

By not requiring a receipt for each payment, the opportunity for theft of funds or fraudulent recording is increased. The Fiscal Court cannot verify the total amount of money collected from the Agriculture Expo Center or document the total amount of funds collected for garbage collections, since they are not issuing receipts or keeping other documentation to support the collection of all funds received.

We recommend that the Fiscal Court require a receipt for each transaction of the Agriculture Expo Center and garbage collection in accordance with KRS 64.840 and to better determine the actual amount that is collected from each location.

*County Judge/Executive Rick Newman's Response: This is a tough one. The court will discuss the best options to be in compliance and implement more adequate controls.*

*County Treasurer Charles R. Lewis' Response: The County Treasurer will confer with department heads regarding procedures to issue receipts and/or utilize receipt hardware.*

2014-002 Telephone Commissions Contracts Should Be Approved By Fiscal Court And All Jail Disbursements Should Be Budgeted

---

In April 2011, the Jailer entered into an Inmate Telecommunication Service Agreement with Combined Public Communications (CPC), which allowed CPC to install the inmate telecommunication system that will process collect calls, prepay and direct pay calls, including local and long distance in the Muhlenberg County Detention Center. This agreement stated that the Fiscal Court was to receive monthly a commission of the gross revenue from all collect calls and direct pay calls, made by inmates within the facility. In addition, the agreement stated that CPC would provide the Muhlenberg County Detention Center a \$50,000 equipment allowance to be utilized however deemed appropriate. During the fiscal year ended June 30, 2014, the Jailer made equipment purchases totaling \$2,272 and sent the invoices to CPC. CPC paid the vendors directly.

KRS 441.225 states (1) Except for capital improvements, utilities and building insurance and except as provided in subsection (2) of this section, the jailer shall have authority to authorize expenditures from the jail budget. Such expenditures shall only be made in accordance with the line item jail budget duly adopted or amended by the fiscal court and the established county procurement code or purchase order procedure of the county. Payment for purchases for the jail shall be subject to fiscal court approval prior to payment. The fiscal

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

***Financial Statement Findings***

**2014-002 Telephone Commissions Contracts Should Be Approved By Fiscal Court And All Jail Disbursements Should Be Budgeted (Continued)**

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court shall not withhold approval of payment for jail expenditures, which are within the jail budget and not unlawful.

The Fiscal Court did not approve the contract between the Jail and CPC. Additionally, there was no documentation the expenditures were ever presented to the Fiscal Court prior to payment.

Since the County Treasurer did not receive the equipment allowance, a total of \$2,272 was not included in the county's financial statements as budgeted receipts and budgeted disbursements for fiscal year end June 30, 2014.

We recommend that the Jailer have all future contracts approved by the Fiscal Court to reduce the risk of misappropriation of contract receipts or disbursements and to ensure that the Fiscal Court is aware of any signing bonuses included in the contract. Also, we recommend that all telephone commissions account activity be amended as necessary, into the county's budget. Invoices should be presented to the Fiscal Court for review prior to payment and approved payments should be recorded in the county's appropriation ledger as budgeted disbursements.

*County Judge/Executive Rick Newman's Response: The Judge Executive and Treasurer will discuss with the Jailer to ensure compliance.*

*County Treasurer Charles R. Lewis' Response: The County Treasurer will confer with the Jailer regarding a change in procedure regarding the handling of the aforementioned procedures.*

*County Jailer Mark Curry's Response: Any future contract will be presented to fiscal court.*

**2014-003 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened**

---

During our testing of disbursements and credit cards, we noted the following deficiencies:

- Thirty-five disbursements/credit card transactions that did not have adequate supporting documentation (itemized invoices).
- One credit card statement did not have original invoices (six of the invoices were copies).
- Invoices were not properly marked paid.
- Credit cards were not always paid in full each month, resulting in finance charges/late fees of \$70.01.

Good internal controls dictate that adequate supporting documentation be maintained for all disbursements and credit card transactions. All vendor invoices and receipts should be maintained including any additional supporting documentation and agreed to the corresponding purchase order and reports.

These deficiencies over disbursements and credit card transactions occurred because the Fiscal Court's lack of internal controls and oversight.

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

***Financial Statement Findings***

**2014-003 Internal Controls Over Disbursements/Credit Cards Should Be Strengthened (Continued)**

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Failing to maintain adequate documentation can result in paying invoices for goods or services that were not provided to the County. Invoices should be properly marked paid to prevent duplicate payment. Also, by not paying credit cards in full each month the Fiscal Court could be assessed penalties or finance charges.

We recommend that the County develop internal procedures to ensure that disbursements and credit card transactions are properly supported.

*County Judge/Executive Rick Newman's Response: A memo will be sent to all those who use the credit cards and ask that all disbursements and credit card transactions are properly supported*

*County Treasurer Charles R. Lewis' Response: The County Treasurer and the County Judge Executive are discussing the possibility of decreasing the number and number of transactions whereby credit cards are utilized. Discussion will also be had regarding of issuing on centralized credit card to restrict the availability of the use of such credit card. The Finance Officer will scrutinize the remittance of transaction receipts to ensure proper documentation had been presented.*

**2014-004 The Fiscal Court Should Advertise For And Award Bids In Accordance With KRS 424.260**

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During disbursement testing, we noted one instance where a bid was not obtained as required by KRS 424.260 or items were not purchased from the state contract vendor. Instead of bidding or using the state contract vendor, the Fiscal Court purchased seven Chevrolet Caprices and one Chevrolet Silverado from a local dealership.

KRS 424.260 states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000), without first making newspaper advertisement for bids."

The Fiscal Court was under the assumption that they only had to pay the state contract price.

The Fiscal Court's failure to properly bid the purchase of the vehicles mentioned above caused the county to purchase from an ineligible vendor and be in violation of KRS 424.260.

We recommend the fiscal court comply with KRS 424.260 and properly advertise and award bids for all purchases over twenty thousand dollars or purchase items from state contract vendors.

*County Judge/Executive Rick Newman's Response: Judge Executive will ensure proper bid procedures are followed. Also, will have a discussion with DLG concerning procedures.*

*County Treasurer Charles R. Lewis' Response: All future bid procedures will be properly reviewed for proper procedure.*

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

***Financial Statement Findings***

2014-005 The Fiscal Court Failed To Implement Adequate Internal Controls Over Activities Allowed Or Unallowed, Allowable Costs/Cost Principles, And Cash Management And Received Duplicate Reimbursements For The Same Costs

*See Comment Under Section III Findings And Questioned Costs – Major Federal Awards Program Audit*

2014-006 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting And Submitted A Materially Misstated Financial Report To The United States Department Of Commerce-Economic Development Administration

*See Comment Under Section III Findings And Questioned Costs – Major Federal Awards Program Audit*

2014-007 The Fiscal Court Should Document Approval/Presentation Of All Expenditures Prior To Payment

*See Comment Under Section III Findings And Questioned Costs – Major Federal Awards Program Audit*

2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting For The Edward Byrne Grant And Had Questioned Costs Of \$12,832

*See Comment Under Section III Findings And Questioned Costs – Major Federal Awards Program Audit*

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit**

2014-005 The Fiscal Court Failed To Implement Adequate Internal Controls Over Activities Allowed Or Unallowed, Allowable Costs/Cost Principles, And Cash Management And Received Duplicate Reimbursements For The Same Costs

---

*Federal Program:* CFDA 11.300- Investments for Public Works and Economic Development Facilities

*Award Number:* 04-69-06556

*Compliance Requirements:* Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management

*Type of Finding:* Material Weakness

*Questioned Costs:* \$47,207

*Federal Program:* CFDA 14.228- Community Development Block Grants/State's Program

*Award Number:* 10-004

*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Type of Finding:* Material Weakness

*Questioned Costs:* None

*Criteria:* OMB A-87 Cost Principles For State, Local And Indian Tribal Governments states in the General Principles that to be allowable, costs “ Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation.” Additionally, the United States Department of Commerce-Economic Development Administration- Summary of EDA Construction Standards states “Neither cash nor the value of in-kind contributions may count towards satisfying a cost-sharing requirement of a grant agreement if it has been or will be counted towards satisfying a cost-sharing requirement of another federal grant agreement, a federal procurement contract, or any other award of federal funds.”

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2014-005 The Fiscal Court Failed To Implement Adequate Internal Controls Over Activities Allowed Or Unallowed, Allowable Costs/Cost Principles, And Cash Management And Received Duplicate Reimbursements For The Same Costs (Continued)

---

*Condition:* Costs that were included on Community Development Block Grant (CDBG) draw requests and advanced by CDBG funds were submitted to the Economic Development Administration (EDA) for reimbursement as well. This was done in order to get advancements from the EDA grant rather than pay invoices and wait for reimbursement. This practice is in violation of OMB A-87.

*Cause:* Pennryle Area Development District (PADD) prepared and submitted reimbursement requests (approved by the County Judge Executive) to the EDA that had already been paid for from CDBG funds. PADD had been advised by the Atlanta Regional Office of the EDA that EDA did not consider CDBG funds to be federal funds and that the EDA treated CDBG funds as matching funds. The CDBG grant agreement states that the source of the CDBG funds is federal. Additionally, the CDBG grant stated that the Muhlenberg County Opportunity Center was to obtain the EDA grant.

*Effect or Potential Effect:* The Fiscal Court received reimbursements of \$326,285 from EDA. The Fiscal Court had unreimbursed expenses of \$279,078. As a result of submitting costs erroneously, Fiscal Court received \$47,207 in reimbursements when no costs were incurred.

*Recommendation:* The Fiscal Court should implement internal controls over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management to ensure compliance with federal laws and requirements. Costs should be submitted only to one federal award unless specifically specified otherwise. DLG should be notified of EDA misunderstanding of the federal status of CDBG funds. Additionally, the Fiscal Court should not seek advancements of grant funds if the grant specifies reimbursements for allowable costs.

*County Judge/Executive Rick Newman's Response and Corrective Action Planned:* The Fiscal Court will implement controls with the grant agency as well as the agency who is managing the grant. Also internal controls with the treasurer will be implemented.

*County Treasurer Charles R. Lewis' Response and Corrective Action Planned:* The Grant had now been completed. We understand all future Grants cannot be matched with other Federal Grants. We did not know this procedure was a non-compliance. Our Area Development District was contracted to monitor this Grant. No time during the Grant were we made aware that we were not following procedures. The disbursements of this Grant were extensively monitored by the Area Development District before any funds were disbursed by the Fiscal Court. Corrective action plan for this specific Grant would be non-applicable.

*Planned Implementation Date of Corrective Action:* None.

*Person Responsible for Corrective Action:* All future Grants involving Federal Funds will be properly matched by procedures.

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2014-006 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting And Submitted A Materially Misstated Financial Report To The United States Department Of Commerce-Economic Development Administration

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*Federal Program:* CFDA 11.300- Investments for Public Works and Economic Development Facilities

*Award Number:* 04-69-06556

*Compliance Requirements:* Reporting

*Type of Finding:* Material Weakness

*Questioned Costs:* \$57,477

*Criteria:* The United States Department of Commerce-Economic Development Administration- Summary of EDA Construction Standards requires “*Semiannual financial reports*. Any recipient whose Award has not been fully disbursed is required to submit Form SF-425 (Formerly 429), “*Financial Status Report*” to EDA semiannually to report on the status of unreimbursed obligations. This report will provide information on the amount of allowable project expenses that have been incurred, but not claimed for reimbursement by the recipient. The first report shall be as of March 30 of each year and shall be submitted to EDA no later than April 30 of each year, and the second report shall be of September 30 of each year and shall be submitted to EDA no later than October 30 of each year.”

*Condition:* Auditor inspected a Federal Financial Report submitted to EDA dated May 2, 2014. This report was to list cumulative project expenditures as of March 30, 2014. The report shows zeros for all amounts except cash receipts and cash disbursements which were left blank. The County Judge Executive signed the report. Auditor noted a second report on file at PADD with the same date. That report was an edited copy of the original report on file at the county. The report submitted to EDA shows project expenditures of \$746,992. Actual expenditures as of March 31, 2014 (including those reimbursed with CDBG funds) were \$689,514. The report is materially misstated by \$57,477.

*Cause:* There were no internal controls in place to verify amounts submitted on federal “Financial Status Reports”. Costs of the project were not correctly aggregated and therefore incorrect amounts of costs paid were submitted to the EDA.

*Effect or Potential Effect:* The report is materially misstated and expenditures are overstated by \$57,477.

*Recommendation:* The Fiscal Court should implement internal controls over federal financial reporting to ensure compliance with federal laws and requirements. Project costs should be correctly aggregated and submitted to the appropriate federal agency. Additionally, recipient shares of costs should not include amounts already reimbursed by another federal program.

*County Judge/Executive Rick Newman’s Response and Corrective Action Planned:* controls will be implemented.

*County Treasurer Charles R. Lewis’ Response and Corrective Action Planned:* The Area Development District was contracted to prepare progress financial information. The County Judge Executive had been ill and not always available to sign off on the proper financial reports.

*Planned Implementation Date of Corrective Action:* None.

*Person Responsible for Corrective Action:* All future reports will also be monitored by the County Treasurer to ensure proper financial reporting for Federal Grants.

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2014-007 The Fiscal Court Should Document Approval/Presentation Of All Expenditures Prior To Payment

*Federal Program:* CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program

*Pass-Through Entity:* State Department of Justice

*Award Number:* 2013-JAG-Pennyrile-00956

*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Type of Finding:* Material Weakness/Material Noncompliance

*Questioned Costs:* None

*Federal Program:* CFDA 11.300- Investments for Public Works and Economic Development Facilities

*Award Number:* 04-69-06556

*Compliance Requirements:* Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Cash Management

*Type of Finding:* Material Weakness

*Questioned Costs:* \$47,207

*Federal Program:* CFDA 14.228- Community Development Block Grants/State's Program

*Award Number:* 10-004

*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Costs/Cost Principles

*Type of Finding:* Material Weakness

*Questioned Costs:* None

*Criteria:* KRS 68.275 requires “The county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid”. In addition to KRS 68.275, OMB A-87 Cost Principles for State, Local, and Indian Tribal Governments, Section C, Basic Guidelines, Section 1, “Factor affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria: (c) Be authorized or not prohibited under State or local laws or regulations. (e) Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.” OMB Circular A-87 establishes principles and standards for determining allowable direct and indirect costs for Federal awards.

*Condition:* Federal expenditures totaling \$230,165 were not presented to, or approved by Fiscal Court. This amount consists of two JAG expenditures totaling \$31,250 and six CDBG/EDA expenditures totaling \$198,915. Additionally, there were 62 non-federal operating expenditures totaling \$333,162 not properly presented or approved.

*Cause:* The internal control of Fiscal Court approval of expenditures was not being documented properly. Nor was there adequate documentation that expenditures had been presented to Fiscal Court by the County Judge Executive.

*Effect or Potential Effect:* Failure to present claims could lead to inappropriate payments and does not allow Fiscal Court opportunity to evaluate the claims. Additionally, failure to present federal disbursements could result in unallowable costs.

*Recommendation:* We recommend the Fiscal Court require all claims be presented in open court and be approved prior to payment.

*County Judge/Executive Rick Newman's Response and Corrective Action Planned:* All claims will be presented in open court prior to payment.



**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2014-007 The Fiscal Court Should Document Approval/Presentation Of All Expenditures Prior To Payment  
 (Continued)

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*County Treasurer Charles R. Lewis' Response and Corrective Action Planned: All bills paid by the Fiscal Court are available for inspection by all court staff before each court meeting. There were instances when listing of these bills were not properly placed in the court minutes. Most of these instances were before the exit conference from the prior audit and were corrected well before the audit of this year. Now, all bills will appear on a computer printout and enclosed in a folder for each court meeting to ensure they become part of the court's minutes. Again all the bills are available for review at each court meeting. This procedure has been totally corrected as of this date. Bill paying for all accounts had been assigned to one location, instead of two, and one listing is prepared to include bills of all funds. Most of the bills in question were a one line item of the budget, closely monitored by construction managers or in the case of the JAG Grant money, by a separate Board.*

*Planned Implementation Date of Corrective Action: None.*

*Person Responsible for Corrective Action: None.*

2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting  
 For The Edward Byrne Grant And Had Questioned Costs Of \$12,832

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*Federal Program: CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program*

*Pass-Through Entity: State Department of Justice*

*Award Number: 2013-JAG-Pennyrile-00956*

*Compliance Requirements: Matching, Level of Effort and Earmarking and Reporting Principles*

*Type of Finding: Material Weakness/Material Noncompliance*

*Questioned Costs: \$12,832*

*Criteria: Office of Justice Programs – Financial Guide – Training Guide referenced in the grant agreement states “In order to monitor the status of funds awarded to a recipient, OJP and OVW require the submission of quarterly financial reports. Recipients are required to submit a Standard Form 425 (SF-425) in the Financial Status Reports (FSR) module in GMS for each grant or cooperative agreement received. The recipient must report summary information on expenditures, unliquidated obligations, recipient share (match), program income, and indirect expenses for each quarter of the project period.”*

*Condition: The Pennyrile Narcotics Task Force did not write checks for the matching requirement of \$11,250 (\$3,750 per agency) to be paid to the three agencies with whom they have contractual agreements. These three agencies considered the matching of \$11,250 as a contribution made back to the Pennyrile Narcotics Task Force. Also, the 3<sup>rd</sup> quarter federal financial report included \$1,582 of expenditures; which were for the previous quarter and had already been reimbursed. This amount was picked up in error when the quarterly financial report was prepared.*

*Cause: There were no internal controls in place to verify amounts submitted on federal financial reports.*

**MUHLENBERG COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2014**  
**(Continued)**

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)**

2014-008 The Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Financial Reporting For The Edward Byrne Grant And Had Questioned Costs Of \$12,832 (Continued)

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*Effect or Potential Effect:* The federal financial report is materially misstated and expenditures are overstated by \$12,832.

*Recommendation:* The Fiscal Court should implement internal controls over federal financial reporting to ensure compliance with federal laws and requirements. There should be expenditures for all items reported on federal financial reports. Additionally, matching costs for contractual services to agencies should not be netted against contributions from those agencies.

*County Judge/Executive Rick Newman's Response and Corrective Action Planned:* The Fiscal Court will implement the adequate internal controls over federal financial reporting.

*County Treasurer Charles R. Lewis' Response and Corrective Action Planned:* The procedure will be monitored on all future Grants and this non-compliance will not occur. The Grant manager has been made aware of this non-compliance and will be prohibited from handling the transactions in this manner. The County Treasurer will also monitor all future transactions.

*Planned Implementation Date of Corrective Action:* None.

*Person Responsible for Corrective Action:* None.

**Section IV: Summary Schedule of Prior Audit Findings (FEDERAL FINDINGS ONLY)**

2013-003 The Fiscal Court Should Approve All Disbursements Prior To Payment

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*Federal Program:* CFDA 16.738 – Edward Byrne Memorial Justice Assistance Grant Program Pass-Through  
*Entity:* State Department of Justice  
*Award Number:* 2012-JAG-Pennyrile-00925  
*Compliance Requirements:* Activities Allowed or Unallowed and Allowable Costs/Cost Principles  
*Type of Finding:* Material Weakness/Noncompliance  
*Amount of Questioned Costs:* \$0

*Comment repeated in current year as 2014-003.*

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**MUHLENBERG COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



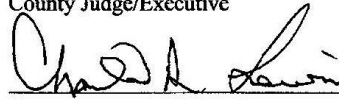
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS  
MUHLENBERG COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Muhlenberg County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs were expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
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County Judge/Executive

  
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County Treasurer

